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Special: PEMHCA Employers

Circular Letter

TO: CONTRACTING AGENCY HEALTH BENEFITS OFFICERS
AND ASSISTANTS

SUBJECT: AB 2544: CHANGE TO UNEQUAL CONTRIBUTION COMPUTATIONS

Change in Employer Contributions for Annuitant Health Premiums – Assembly Bill 2544

The purpose of this Circular Letter is to inform you about new legislation which will impact computations for agencies contracting for CalPERS Health Benefits under the Public Employees' Medical and Hospital Care Act (PEMHCA). These changes affect only those contracting agency employers who utilize the "unequal contribution" method for health care premium payments for retirees.

Program Background

Under the Public Agency provisions of the PEMHCA program, contracting agency employers may elect to contribute to employee and annuitant health care in equal amounts, or may establish a lesser monthly employer contribution for annuitants. If the "unequal" method (PEMHCA section 22892(c)) was chosen, employers were previously required to annually increase the monthly annuitant contribution for health care by not less than 5 percent of the monthly employer contribution for active employees. Annuitant health care contributions by employers under this approach did not necessarily achieve parity with active employee contributions over time.

Legislative Impact

Assembly Bill 2544 (Stats. 2006, Ch. 862) changes this computation for annual increases to annuitant health care under the unequal method. Under the new provisions, agencies will have to annually increase the total monthly annuitant health care contribution to equal an amount not less than the number of years the agency has been in the PEMHCA program, multiplied by 5 percent of the current monthly employer contribution for employees, until the time that the employer contribution for annuitants equals the employer contribution paid for employees. This annual adjustment to the minimum monthly employer contribution for an annuitant authorized by this change cannot exceed one hundred dollars (\$100) per annuitant per month.

Implementation

Each June, when the Board announces the results of rate negotiations for the following year, contracting agencies have a 60-day opportunity to review their future year contract. At that time, agencies assess the impact of new rates on their contract and the annual adjustment needed for employer contributions for health care for annuitants. With respect to AB 2544, the required adjustment to annuitant health care contributions will be performed in 2007 for implementation in the beginning of 2008.

Agency Valuations

The impact of this change is unique to each agency. It is influenced by each employer's contribution for active and retired members and the number of years in the program. To assist agencies in assessing this financial impact of this change, staff is developing individual agency analyses based on data in the CalPERS system. The valuations will provide full and detailed analyses of the agency's status under this change. We will contact agencies over the next 30-90 days as analyses become available. We will have information validated and complete by late May 2007 so agencies will have the information available when the Board announces 2008 health premium rates in June.

Thank you for your attention to this matter. Should you have any questions, please contact the CalPERS' Employer Contact Center at **888-CalPERS** (or **888-225-7377**).

A handwritten signature in cursive script, reading "Holly A. Fong", followed by a vertical line.

Holly A. Fong, Chief
Office of Employer and Member Health Services